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FEDERAL COMMUNICATIONS COMMISSION
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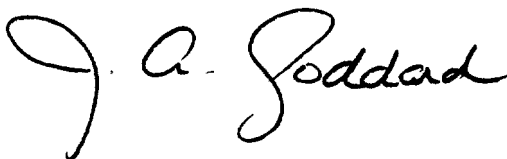
Dear Mr. Caton:

Re: *CC Docket No. 93-129 - 800 Data Base Access Tariffs and the 800 Service Management System Tariff*

On behalf of Pacific Bell and Nevada Bell, please find enclosed an original and six copies of their "*Rebuttal to Oppositions to Direct Cases*" in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,



Enclosures

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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(MAY - 5 1994

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)

800 Data Base Access Tariffs and the)
800 Service Management System Tariff)

CC Docket No. 93-129)

PACIFIC BELL AND NEVADA BELL
REBUTTAL TO OPPOSITIONS TO DIRECT CASES

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SUMMARY

The tariff investigation should be concluded and Pacific Bell and Nevada Bell's tariffs should continue in effect as written. The exogenous costs claimed were costs incurred solely for 800 Data Base deployment. The 800 Service Switching Point costs are for 800 specific software which can be used only for 800 Data Base. The tandem upgrade costs were incurred solely to meet the Commission's orders in Docket 86-10. They should be allowed as exogenous costs.

Claims that a different interstate allocation should be used should be denied since we used the actual 800 demand in order to calculate the interstate rate. Our rates are therefore just and reasonable and do not result in arbitrary cost shifting.

The other claims by commenters are not valid since our tariffs properly identify costs, description of services provided and the rates to be charged for the services. Therefore, the Commission should conclude this investigation and allow the tariffs to continue in effect.

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)

800 Data Base Access Tariffs and the)
800 Service Management System Tariff)

CC Docket No. 93-129

PACIFIC BELL AND NEVADA BELL
REBUTTAL TO OPPOSITIONS TO DIRECT CASES

Pacific Bell and Nevada Bell hereby file their
Rebuttal to the Oppositions to Direct Cases.

I. INTRODUCTION

Nine parties filed oppositions to the Direct Case filed by Pacific Bell and Nevada Bell.¹ Most of these companies simply reiterated that which was contained in the Petitions to Suspend and Investigate filed last year. A few have made some new claims, or done further analysis on some of the old claims. Pacific Bell and Nevada Bell will address these issues.

¹ Nevada Bell utilizes Pacific Bell's tariffed 800 service in order to provide this service within its territory.

II. THE EXOGENOUS COSTS CLAIMED ARE PROPER

Most commenters try to make an argument that the exogenous costs claimed by various companies are inconsistent and therefore unreasonable.² This leap of logic should not be considered. It makes perfect sense that each company's exogenous costs are quite different.

Exogenous costs are claimed to recover those costs which were incurred specifically to implement 800 service. Each company is distinct and makes its own decisions on deploying services and technology. For some companies, 800 Data Base deployment took place prior to the imposition of price cap regulation. For those companies, exogenous costs would be relatively low since much of the technology was already deployed, was in the rate base and is being recovered through price cap rates. Other companies have implemented 800 technology only very recently. For those companies, a lot of work was needed to deploy 800 service, and exogenous costs would be higher.

Therefore, the comparisons done by MCI and others³ as to the amount of exogenous costs claimed by each company should have no part in the tariff review process. What the Commission must do is determine whether the exogenous cost claims by each particular company are justified and reasonable for that company. Comparing dissimilar companies

² See, e.g., AT&T, p. 14; MCI, p. 9; Allnet, p. 2.

³ See, e.g., MCI, Appendix 1, Schedule A.

to each other in order to try and find similar costs will not work. Each network is different, and each tariff must stand or fall on its own.

A. Tandem Costs Were Incurred Solely To Comply With The Commission's Order

Various parties have taken issue with Pacific's \$7.6 million investment (translating to \$3.4 million in exogenous costs) for tandem upgrades.⁴ Pacific will, once again, explain exactly why those costs were "incurred specifically for the implementation and operation of the basic 800 Data Base service required by Commission orders."⁵

When the Commission's order came out in September of 1991⁶ requiring 800 Data Base implementation by March of 1993 with specific access times, Pacific had to make various determinations for deployment. On January 21, 1992, after careful consideration, Pacific filed with the Commission a petition for waiver of the access time standards established in the Order, and on July 28, 1992, the Commission granted Pacific's waiver of the March 1993 access time standard.⁷

⁴ Sprint, p. 10; AT&T, p. 14; MCI, p. 9.

⁵ Provision of Access for 800 Service, CC Docket No. 86-10, Second Report and Order, released January 29, 1993, par. 27.

⁶ Provision of Access for 800 Service, September 1991 order ("September 1991 Order").

⁷ Provision of Access for 800 Service, CC Docket No. 86-10, Order, released July 28, 1992 ("Waiver Order").

In granting the waiver, the Commission acknowledged Pacific's "...ambitious SS7 deployment schedule" and stated that Pacific's "...extensive effort will result in reduced access times for almost two thirds of its traffic and a mean access time in 1993 that meets the Commission's mean requirement for 1995. Moreover, by March 1995, Pacific will have deployed SS7 interconnection capability in virtually all of its end offices, and thus will be capable of achieving a mean access time of less than one second, which substantially exceeds FCC requirements and is substantially better than current NXX access time levels."⁸

In its waiver request, Pacific stated that in order to meet the March 1993 access time standard, it would be required to implement SS7 to the end office level in all of its LATAs. Pacific proposed, instead, to aggregate 800 traffic at tandem-level SSPs in order to meet the March 1993 implementation date. In granting the waiver, the Commission acknowledged that "...it would be difficult, if not impossible, for Pactel to accomplish these changes, along with all the other work that has to be performed by March, 1993, without compromising network reliability."⁹

Because of the very short time period given for implementation, and given the access delay time standards imposed by the Commission, Pacific, with the Commission's

⁸ Waiver Order, at 14.

⁹ Waiver Order, at 15.

agreement, therefore implemented the solution whereby 800 traffic was routed to a tandem before the data base was queried. Prior to the Commission's September 1991 Order, Pacific had planned an end office deployment of 800 Data Base. However, when the September 1991 Order was released, Pacific did not have adequate time to deploy 800 SS7 capabilities at all 700 end offices. In fact, in those LATAs¹⁰ where Pacific had begun to deploy 800 SS7, it was at each end office. The Commission's order forced us to plan 800 SS7 traffic aggregation at the nine tandems located in LATAs other than 1 and 5. This solution required increased capacity at the tandem and also required tandem level 800 SSP deployment.

What was particularly disturbing about this "solution" was that we had to expend dollars increasing tandem capacity in order to meet the 1993 access time standard knowing that (1) we would have to re-deploy 800 service back to the end office in order to meet the 1995 access time standard; and (2) the order in CC Docket No. 91-213 on local transport restructure would give incentives for carriers to bypass the tandem, thus stranding the investment in tandem capacity. Therefore, we had to make redundant and basically unnecessary investment in the tandem for the sole and simple reason of complying with the 1993 access time standard in the Commission's September 1991 Order.

¹⁰ LATAs 1 and 5.

The exogenous costs we are claiming are for processor upgrades, replacement of equipment and additional software to provide for 11,500 SS7 trunk augments and 26,500 tandem trunk conversions from multi-frequency to SS7 signalling. We acknowledge that, in general, SS7 costs are not to be considered exogenous costs.¹¹ And, had we been given a reasonable period of time to implement 800 Data Base, we would have deployed SS7 at the end office, and the costs we incurred for doing so would not be claimed as exogenous costs (except, of course, for the cost of 800-SSP software, as explained in Part B, below). The costs Pacific has incurred to date in upgrading end offices to SS7 are not included in our exogenous costs.¹² The reason we are including the tandem level upgrades in the exogenous cost calculation is because these are non-efficient costs and the only reason Pacific incurred them was to comply with the Commission's September 1991 Order.¹³ Thus, they should be allowed as exogenous costs.

¹¹ Provision of Access for 800 Service, CC Docket No. 86-10, Second Report and Order, released January 29, 1993, par. 27.

¹² Although we will be seeking exogenous treatment for the 800-SSP costs incurred post-1992 in order to meet the 1995 access time standard.

¹³ This is not, as MCI claims, just accelerated SS7 deployment. Pacific did not choose, nor would have chosen, to ever deploy 800 functionality at the tandem level. It was simply done in order to comply with the September 1991 Order because the Commission did not give adequate time to deploy 800 SS7 capability at all 700 end offices.

B. 800 SSP Software Is Specific To 800 Data Base
And Does Not Support Any Other Service

Pacific has claimed costs for the 800 service switching point ("SSP") software. 800 SSP software, as Pacific has explained in both its reply to protests and its Direct Case, is specific for 800 service. It cannot be built on for future SS7 services, such as AIN-based services. The 800 SSP software cost is incurred in order to convert an SS7 end office into an SS7 800-compatible office. Thus, the 800 SSP software package meets the Commission's definition of a proper exogenous cost. The 800 SSP software cannot be considered part of SS7 infrastructure. An SS7 end office is not 800-capable until the 800 SSP software has been installed. These costs are therefore specific to 800 Data Base service and clearly deserve exogenous treatment.

III. THE METHODOLOGY USED TO RESTRUCTURE 800 SERVICE
YIELDS A PROPER RESULT

MCI and AT&T again take issue with the method used to restructure 800 service.¹⁴ While our Direct Case sets forth an exhaustive analysis of the three methods, we will summarize simply to say that we used Method 1, which is an appropriate methodology. By using Method 1 no added flexibility was added to any other basket. Further, using Method 1 results in the cost flowing through directly to the cost causer. No 800 costs were spread to other baskets.

¹⁴ MCI, p. 40; AT&T, p. 2.

While some may take issue with the methodology itself as being awkward, the result is acceptable and in conformance with price cap principles.

IV. JURISDICTIONAL ASSIGNMENT USING DEMAND RESULTS IN REASONABLE RATES

A few parties take issue with the calculation of the interstate portion of exogenous costs.¹⁵ These companies contend that Part 36 jurisdictional separations procedures should be used to calculate the interstate portion of these costs. However, under price caps, there is no requirement to use Part 36 costs to calculate prices. The method Pacific used to determine interstate recovery is the most accurate method. Pacific used a unit costing methodology which remains constant whatever interstate allocation or percentage is used. Pacific took the total 800 demand and total exogenous 800 specific costs and from that demand developed the unit cost.

Costs of 800 service are the same whether the call is intrastate or interstate. Therefore, a unit cost analysis is appropriate and results in the cost causer paying the correct price regardless of jurisdiction. With a unit cost analysis, the total costs and demands are used to develop unit cost, and then the appropriate percentage is applied for the jurisdictional demand for the service. While commenters are concerned with the allocations used by

¹⁵ National Data, p. 14; Sprint, p. 6; MCI, p. 27.

various parties and the fact that they are not uniform, Pacific suggests that unit costing across jurisdictional boundaries is the most accurate costing methodology and ensures the appropriate price. Using a Part 36 allocation, which has no relationship to 800 service, doesn't make sense, and bears no relationship to reality. With Part 36, the interstate allocation would be approximately 25%. However, 800 service, for Pacific, is 49% interstate. Using Part 36 will skew our rates, and would be a poor substitute for economic analysis.¹⁶

V. CLAIMED SMS COSTS ARE NOT DUPLICATIVE

The joint BOC rebuttal regarding the SMS access tariff will refute commenters' concerns concerning overrecovery of SMS costs. MCI makes the most detailed claim,¹⁷ but, as shown in the joint BOC rebuttal, MCI's analysis is seriously flawed.

VI. THE TERMS AND CONDITIONS IN THE TARIFF ARE PROPER

MCI has objected to the Direct Cases that POTS translation should not be at a zero rate, and that it is

¹⁶ See Baumol, et al., How Arbitrary Is "Arbitrary"? - Or, Toward The Deserved Demise Of Full Cost Allocation, Public Utilities Fortnightly, September 3, 1987. ("Fully allocated cost figures and the corresponding rate of return numbers simply have zero economic content. They cannot pretend to constitute approximations to anything.")

¹⁷ MCI, p. 37.

improperly bundled with 800 Data Base service.¹⁸ While the Commission has ordered that POTS translation be a vertical feature, the reality is that no additional costs are incurred by populating a particular field in the data base with a POTS number. The particular data base field must either be populated by a 10-digit 800 number or a 10-digit POTS number. In either instance, the same amount of data base recognition and transmission time is needed to return those ten digits to the carrier. Thus, while POTS translation may be considered a vertical feature, no additional costs can be identified for this feature.

MCI also claims that Pacific Bell and Nevada Bell should explain why Nevada Bell offers area of service screening ("AOS") on a state basis, whereas California offers it only on a LATA basis, NPA, or NPA-NXX basis. On April 26, 1993, in Transmittal 159, Nevada Bell expanded its definition of AOS routing to include originating LATA, NPA, or NPA-NXX routing. Nevada Bell's tariff language therefore matches that of Pacific Bell.

Allnet has complained that Pacific Bell is one of the few LECs that have included costs associated with Land and Buildings, Accounts 2111 and 2121.¹⁹ However, in order to figure the cost associated with an investment, the Commission has allowed Pacific to include the land and building investment in calculating its investment-related

¹⁸ MCI, p. 56.

¹⁹ Allnet, p. 3.

costs. Any investment made in the network has an impact on the overall requirements for land and buildings. The Commission has traditionally allowed Pacific, and other carriers, to recover these costs associated with an investment.

It should be noted that while the investment included in the Description and Justification is total investment needed, the rate recovery sought is based on the costs of that investment, such as repair and maintenance, depreciation, return on investment, etc. Since the Commission has allowed Pacific to claim its exogenous costs, Pacific has translated its investment requirements into actual costs. Repair and maintenance, administrative expenses, etc., are examples of these costs.

VII. ONLY 800 SCP COSTS WERE INCLUDED AS EXOGENOUS COSTS

National Data Corp and Ad Hoc contend that we have improperly allocated SCP investment between 800 Data Base and other services (predominantly LIDB). They claim that we have allocated our SCP investment on a "relative use" basis.²⁰ These companies are incorrect. Pacific Bell did not use a relative use allocation. Instead, because LIDB was already up and running, the SCP costs included in Pacific's exogenous costs are limited only to the incremental costs associated with deploying 800 Data Base

²⁰ National Data, p. 11; Ad Hoc, p. 8.

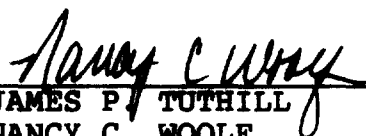
service. None of the costs associated with LIDB were even considered in our exogenous cost calculations. Therefore, each dollar spent in 800 deployment for the SCP, were actual dollars spent for 800 service, and are therefore included in our exogenous cost analysis. While it is true that our SCP is used for both LIDB and 800, no allocation for LIDB was made in our exogenous cost treatment analysis.

VIII. CONCLUSION

Pacific Bell and Nevada Bell respectfully request that the Commission conclude the investigation and allow our tariffs to continue in effect as written.

Respectfully submitted,

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Date: May 5, 1994

CERTIFICATE OF SERVICE

I, Elizabeth Blak, hereby certify that copies of the foregoing **"PACIFIC BELL AND NEVADA BELL REBUTTAL TO OPPOSITIONS TO DIRECT CASES"** in connection with CC Docket No. 93-129 were served by hand or by First-class United States mail, postage prepaid, upon the parties appearing on the attached service list this 5th day of May, 1994.

By: _____



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